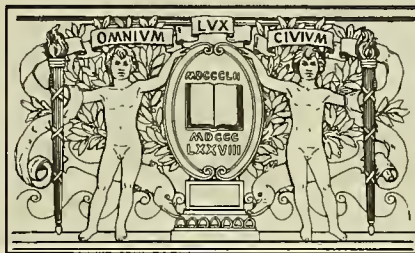


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February 17, 1972



To the Honorable the Mayor:

1.) Introductory Statement

The Finance Commission is greatly concerned about the deteriorating condition of the Boston Park System. Over the last year or so we have examined methods to develop additional capital resources for the restoration of our major City parks. In the course of our analysis of available sources of capital funds for park improvement, the Commission discovered that the City presently is earning an inadequate return from the Parkman Fund -- by far the largest City trust fund for the exclusive benefit of the City Park System.* Through no fault of those charged with the investment of the Parkman Fund but because of an archaic and unsound municipal investment ordinance, the available income from the Parkman Fund is substantially less than it ought to be. In this report we recommend that the general

*The George Robert White Fund is available for "creating works of public beauty and utility" which includes, obviously, improvements to parks among other things. The Park System, however, is not the only purpose for the fund.

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investment standards for City trust funds be changed.

2.) Background

Over the years the Parkman Fund has frequently attracted public attention -- especially when proposals have been made for its use which have appeared to violate the donor's intentions. For example, the use of Parkman Fund income for Park Department payroll purposes (a practice which has now been stopped) was vigorously and properly criticized at the time that such was the City's policy. Just last summer the Finance Commission objected to a major grant of Parkman Fund income to a private charity for the benefit of Franklin Park, until adequate safeguards were established to ensure that the funds would be spent wisely and for well-conceived improvements. In recent years, in keeping with the spirit and intention of the donor, the Parkman Fund has been consistently applied to capital improvements in the Common and other key parks in our Park System.

The following background is relevant. George Francis Parkman died in Boston on September 16, 1908, leaving a net estate of approximately \$5,400,000. Under the terms of his will, he left the entire residue of his estate, which was in excess of \$5,200,000 to the City of Boston, in trust, the income "to be applied to the maintenance and improvement of the Common and parks now existing". It has since been decided that the parks which Mr. Parkman intended to benefit were those existing at the time the codicil to his will was executed, i.e., January 12, 1887 (for a comprehensive report on this matter, see the Report of the Special Committee of the Parkman Fund Income,

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dated November 18, 1921). Of those parks it hardly need to be said that the Common was the park which Mr. Parkman undoubtedly favored more than the others.

While a young man, George Francis Parkman's father, Dr. George Parkman, a prominent citizen and professor at Harvard Medical School, was murdered by John W. Webster, a professor of chemistry at Harvard -- the most famous murder case in the history of Boston. Young Parkman, a recent and most promising graduate of Harvard, learned of his father's murder while traveling in Europe. His father's murder had a profound effect on the boy. For all intents and purposes his father's murder turned young Parkman into a recluse. He lived at No. 33 Beacon Street, in the house which until recently served as the office of the Parks and Recreation Department, with his mother and sister and, after their deaths, alone, until the time of his death. He managed his affairs with more than the customary eccentricity well-known in Boston in those days -- and even now, but to a lesser degree. His business consisted primarily of mortgage and other forms of lending. Each day he would carry the day's receipts (which were delivered to his front door) to his bank on State Street and then return to his house, sometimes stopping by the Athenaeum on his way for a book! For exercise he would stroll on the nearby streets or along the Beacon Street Mall of the Common and Public Garden. It has been said that "he seemed to the man on the street a strange apparition, a man apart". See Report of the Special Committee (above). It is altogether remarkable, therefore, that out of this tragic life the City should have been benefitted by a handsome legacy devoted to beauty and the common good. It is unlikely that the City will ever benefit from



such private munificence again. This fact in addition to the customary respect which any trustee owes the donor's intentions, makes it important that the City manage and employ the Parkman Fund as effectively as possible. At present, such is not the case.

3.) The Investment Problem With City Trust Funds

Trust funds for the benefit of City Hospital and the Boston Public Library are invested under the supervision of their respective Boards of Trustees who, by special legislation, are empowered to administer gifts and grants for the benefit of these institutions. Other City trust funds - with the exception of the George Robert White Fund which has a separate Board of Trustees - are managed by the Collector-Treasurer. The George Francis Parkman Fund is one of these. The Collector-Treasurer's general investment powers with respect to trust funds managed by him, with the exception of City Cemetery Funds which are regulated by special law, are set forth in Chapter 25, Section 10 of the Revised Ordinances (1961).* The Parkman Fund, like the other trust funds committed to his charge, is invested by the Collector-Treasurer in accordance with Section 10 which limits trust fund investments to obligations of the United States, the Commonwealth of Massachusetts, and the cities and towns of the Commonwealth. Such investment restrictions are financially unsound.

In the first place, state and municipal obligations, which are exempt from state and federal income taxation under existing law, offer a much lower yield than obligations of comparable quality which

* Appendix "A"

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are subject to taxation. Historically, tax-exempt bonds have played an important role primarily in the investment portfolios of the very rich. For Boston to invest in such securities is absurd. Even Federal obligations such as Treasury Bonds and Notes, which are taxable, customarily do not produce as good a return as corporate bonds of impeccable standing or even the obligations of many of the Federal authorities and agencies. A recent listing of Parkman Fund investments, however, shows that almost one-half of its 5.3 million dollar portfolio consists of City of Boston bonds with interest rates of between 2 1/2% and 4 1/4%. The balance of the portfolio is comprised of United States Notes and Treasury Bonds with interest rates from 5 3/4% to 7 1/4% and from 3% to 4 1/4%, respectively. During this period, high grade corporate bonds could have been purchased on the market with returns well in excess of 7%. As a result, the amount of annual income from the Parkman Fund which, under the terms of the gift, is available for the maintenance and improvement of the Boston Park System, is significantly less than the amount of income which ought to be produced by a trust fund of this size.

3.) Recommendation For Action

By simple ordinance change or statutory amendment it is possible to substantially increase the annual income of the Parkman Fund without increasing investment risk. Accordingly, it is our recommendation that the investment standards of Section 10 be broadened to permit the Collector-Treasurer to invest in the same securities which by statute have been found suitable for trust investment in the other municipalities of the Commonwealth. Every city and town in the



Commonwealth, except Boston, which holds trust funds in excess of one million dollars, is currently authorized to invest trust funds in "securities, other than mortgages or collateral loans, which are legal for the investment of funds of savings banks under the laws of the commonwealth ... (subject to maximum percentages in certain types of stocks - not here relevant). See G. L. c. 44, Section 54.* Such securities are popularly known as the "legal list" for savings banks. Of course, there is absolutely no reason why the Collector-Treasurer of Boston should not be permitted to invest trust funds in the same type of investment portfolio permitted every other municipality. Whatever special concerns (if any) the General Court may have had in mind when they excepted Boston from coverage by G. L. c. 44, Section 54 no longer are apparent. Boston's Collector-Treasurer is well-qualified to administer the Parkman Fund under the investment standard for savings banks and he is in a perfect position to call upon some of the best investment advice in the nation for advice and investment review should he desire to do so.** In fact, in 1961 the General Court specifically authorized use of the savings bank investment standard in the case of City of Boston Cemetery Maintenance Funds. The Collector-Treasurer, in other words, is already applying this investment standard with respect to cemetery funds managed by him. See Acts of 1961, Chapter 13. Why deprive the living of the same generous

* Once again we find a legislative "double-standard" which, unreasonably restricts and actually penalizes the City of Boston from a financial standpoint. Appendix "B"

** The Trustees of the George Robert White Fund wisely retained an independent investment advisor a few years ago.

consideration now reserved for the dead! Professional investment assistance might be available without charge; however, it would seem to us advisable for the City Council to authorize the Collector-Treasurer, in his best judgment, to enter into an investment advisory contract with a qualified investment advisor for a fee if he should see fit. The fee for such advice, which could be established after a solicitation of informal bids from the best financial houses in Boston, would probably be modest when compared to the potential for improvement in income from the fund. Because of the charitable nature of the Parkman Fund and the fact that it is entirely invested in senior securities, an annual fee of less than the "going rate" of .5% of principal is realistic.

We cannot predict with absolute accuracy the exact increase in income which might be achieved by bringing Boston's trust investment powers into line with the General Laws. However, we have consulted with persons familiar with savings banks investments and they have made the conservative estimate that Parkman Fund income might be improved by almost \$80,000 per annum. The Parkman Fund now produces a 4.47% return of \$243,985.25 on a book value of \$5,451,800. The Fund is invested entirely in United States obligations and obligations of the Commonwealth of Massachusetts and its municipalities in accordance with Section 10. An investment analysis recently prepared at our request shows that if the City were permitted an investment policy corresponding to that permitted Massachusetts savings banks, current income from the Fund could be increased to \$312,886.50, a yield on book or par value of 5.74%. These projections are estimates. Actual income increases could be even higher depending on such factors



as: 1) the length of time required to adjust the Parkman Fund portfolio, and 2) the condition of the bond market at the time the changes are made. On the last point, it should be observed that despite drops in the so-called "prime rate" long-term bonds, in general, continue to offer a return of 7% or better. Recent investments made by the State Retirement System are yielding from 7.33% to as high as 7.61%. When one considers: 1) that it is possible for the City to obtain matching Federal funds for capital expenditures for improvements to its central parks* and 2) the undeniable need for major refurbishing and improvement to our parks, the urgency of revising the City's investment powers as we suggest becomes manifest.

In order best to accomplish these changes, we recommend that the City introduce in the General Court legislation which will include Boston within the coverage of G. L. c. 44, Section 54. The City should, upon passage of such legislation, amend Chapter 25, Section 10 of the Revised Ordinances to permit City trust funds to be invested in the same manner provided by the General Laws of the Commonwealth and to permit the Collector-Treasurer to seek professional investment advice if he deems it advisable.

*The "matching funds" aspect of federal beautification moneys cannot be overemphasized. Every dollar of Parkman Fund income should produce \$2.00 in improvements to our Park System.

Respectfully submitted,

Lawrence T. Perera, Chairman,

Joseph P. McNamara,

Russell S. Codman Jr.,

Frederick R.H. Witherby,

THE FINANCE COMMISSION.

Thomas J. Murphy,
Executive Secretary.

Chapter 25, Section 10 of the Revised Ordinances of 1961 of the City of Boston:

The collector-treasurer, unless the donors have otherwise directed, shall receive all properties given, devised or bequeathed to, or deposited with, the city for any specific purpose, and shall use the same, or the income thereof, as designated in the gift, devise, bequest or deposit. If the income only is to be used, he shall hold the properties as permanent funds. He shall invest and keep invested the said permanent funds in bonds, notes or certificates of indebtedness of the United States or of the commonwealth or of any city or town within the commonwealth. For the purpose of investment and reinvestment he shall have power from time to time in his discretion to sell or exchange any of the securities of which any of the said permanent funds consist; but all purchases, exchanges and sales shall be with the written approval of the mayor.

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THE FOURTH PART OF THE BOOK IS A HISTORY OF THE
CITY OF NEW YORK.

General Laws, Chapter 44, Section 54. Investment of Trust Funds, etc.

Trust funds, including cemetery perpetual care funds, unless otherwise provided or directed by the donor thereof, shall be placed at interest in savings banks, trust companies incorporated under the laws of the commonwealth, banking companies incorporated under the laws of the commonwealth which are members of the Federal Deposit Insurance Corporation, or national banks, or invested by cities and towns in paid-up shares and accounts of and in cooperative banks, or in shares of savings and loan associations or in shares of federal savings and loan associations doing business in the commonwealth to an amount not exceeding ten thousand dollars, or in bonds or notes which are legal investments for savings banks. Cities and towns having such funds in the custody of the treasurer in an aggregate amount in excess of one million dollars may also invest such funds in securities, other than mortgages or collateral loans, which are legal for the investment of funds of savings banks under the laws of the commonwealth; provided, that not more than fifteen per cent of any such trust funds shall be invested in bank stocks and insurance companies stocks, nor shall more than one and one-half per cent of such funds be invested in the stock of any one bank or insurance company. This section shall not apply to Boston.

